

Fear of reprisals darkens US economic outlook

AFP, Washington

Fears of terrorist reprisals for the US-led air strikes on Afghanistan threaten to hit already-fragile US consumer confidence, experts said.

But consumers — whose spending accounts for two-thirds of US economic activity — could now start to adjust psychologically because the waiting period was finally over, analysts said.

And when an economic recovery began, it would be bolstered by a huge fiscal and monetary stimulus program drawn up after the September 11 terrorist assaults, which killed some 5,500 people.

"Clearly this (the US-led response) and fears of retaliation will weigh heavier on confidence both in the business and the consumer sector," said Banc One economist Diane Swonk.

The travel industry had already suffered, although airports appeared to be more crowded at the weekend and planes were fuller despite long waits for security

checks, she added.

"This is a very fragile situation that can easily be set back. The real issue now is whether or not there will be another act of terrorism that literally scares consumers back into their homes."

"These disruptions in activity are what the recession is made of," Swonk said.

The ripple effects had already caused major layoffs not only in the airline industry — 85,000 jobs lost in the top six airlines alone — but in the tourism industry in general, she said.

On the eve of Sunday's attacks, the Group of Seven powers had sent out a joint statement after a meeting here, promising to bring forward steps to lift global growth and to root out terrorist finances.

But they came up with no specific new measures.

US Treasury Secretary Paul O'Neill has forecast a US economic contraction in the July-September period and warned that the recovery could be delayed by at least one

quarter.

Consumers will be critical to the timing of recovery, experts said.

"While being at war and especially a strange war such as we are in right now is not the greatest thing imaginable it has got to be better than the waiting process," said Naroff Economic Advisors president and chief economist Joel Naroff.

"People can now start to get used to the situation and that is a positive," Naroff added.

"It is not going to cause confidence to soar but uncertainty and waiting is not usually good for consumer confidence. In the longer run this could be a help."

In late morning trade, Wall Street's Dow Jones industrial index was up 3.80 points, after having dropped at the opening bell. The market held a minute's silence in respect of US troops engaged in action.

"I imagine everybody was expecting this to happen," said First Securities economist Rod Smyth.

"My guess is we will continue to

get back to normal until whatever comes by in the way of a reprisal from the terrorists, if it is sufficiently big enough."

Banc One's Swonk also forecast that an economic recovery, when it came, would enjoy a big boost from the stimulus enacted since the attacks.

President George W. Bush is calling on Congress to pass at least 60 billion dollars in extra tax cuts, in addition to a 40-billion-dollar rebuilding package and a 15-billion-dollar airline rescue.

The Federal Reserve last week slashed interest rates for the second time in 15 days by half a percentage point — bringing the key federal funds target to a 39-year low of 2.50 per cent.

"It is like having a tunnel with the light at the end of it," she said.

"The light has now gotten much brighter than anyone could have imagined before September 11 because of the stimulus that is in the pipeline now. But we do not know how long the tunnel is."

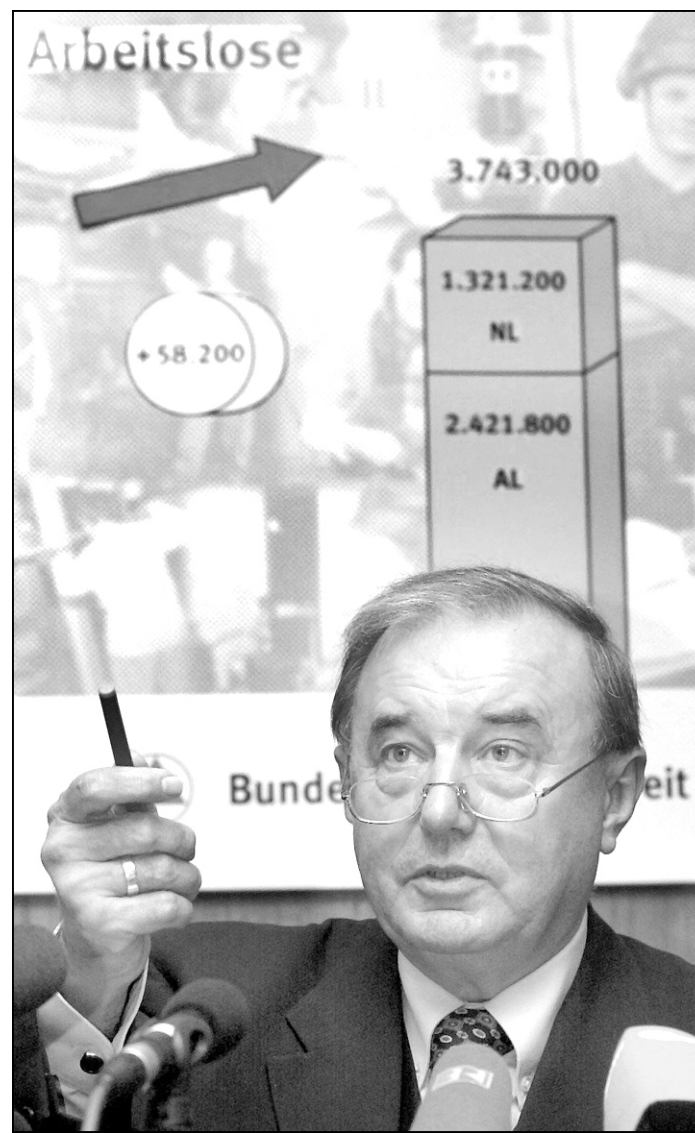


PHOTO: AFP

President of the Federal Labour Office, Bernhard Jagoda, gestures during a press conference in Nuremberg yesterday. The German jobless total fell only slightly in seasonally-adjusted terms in September, figures published by the Federal Labour Office showed. However, when adjusted for seasonal factors, the pan-German jobless total actually increased by 20,000 in September from August, the office said.

Asian economies to benefit from 2002 US recovery: ING Barings

AFP, Hong Kong

The economies of selected Asian nations will be the chief beneficiaries of an early United States recovery, international investment bank ING Barings said Tuesday.

ING Barings said the economies' capability of generating strong domestic demand would make them winners when the US economy recovered towards the end of the first quarter of 2002.

It predicted the positive outcomes for Hong Kong, South Korea, China, Indonesia and the Philippines, based on a demonstrated pick-up in con-

sumer demand in the second quarter of 2002.

Asian consumers were looking at the US economy and once it stabilized it would act as a psychological boost to regional economies, the bank said.

ING Barings chief economist Tim Condon said Hong Kong was likely to post gross domestic product (GDP) growth of 4.0 per cent in 2002 despite expected negative growth of 0.5 per cent for 2001.

Condon said fiscal and monetary stimuli currently being implemented in the US, coupled with quick military action against Afghanistan by US-led forces, would be the necessary spur

to boost consumption in the US.

"There is no reason why monetary and fiscal measures will not work. There are no structural impediments in the US to prevent a recovery in the first quarter and when the US economy stabilises, sentiment will improve markedly in Asia," he said.

The economist said he was expecting Hong Kong to experience deflation in 2001, with its consumer price index of negative 1.5 per cent expected for this year and positive 0.5 per cent in 2002.

However, not all Asian countries would benefit equally from the recovery in the US, ING Barings said.

Taiwan, Thailand and Malaysia in

particular suffered from "Asiasclerosis" — where GDP growth has been hampered by asset restructuring in the aftermath of banking crises.

It said the difficulty of restructuring assets depressed the return on capital and undermined domestic demand.

ING Barings added a turnaround in these countries depended on export demand.

"They will underperform the rest of the region until a recovery in export growth trickles down into stronger domestic demand," the bank said.



PHOTO: AFP

Brokers happily book stock buying orders at the Karachi Stock Exchange yesterday. The key index rose by 72 points, as bourses around the region rebounded from losses Monday due to the US-led air strikes in Afghanistan.

Asian shares rise in technical rebound amid caution

AFP, Hong Kong

Most of Asia's major share markets rebounded Tuesday, although trading was light and sentiment subdued amid uncertainty over the economic and security impact of the US-led bombardment of Afghanistan.

The Tokyo market slid 1.9 per cent as Japanese investors had their first chance to react to the strikes against Afghanistan following a public holiday on Monday.

Elsewhere, markets clawed back at least some of the previous day's losses, reassured by the relatively firm performance of US markets on Monday.

The Dow Jones industrials fell 51.83 points or 0.6 per cent to close at 9,067.94 in New York while the Nasdaq composite gained a scant 0.65 point (0.04 per cent) to 1,605.95.

On Tuesday the Nikkei 225 average of the Tokyo Stock Exchange closed at 10,011.77, down 194.10 points from Friday.

"Investors were concerned about the course of the anti-

terrorism action although US share prices were mixed overnight with the Nasdaq showing firmness," Daiwa Securities equity manager Shunsuke Nishino said.

Dealers added the Tokyo market was ripe for a fall anyway.

"For technical reasons, the market was already beginning to run out of upward momentum, and the air strikes and the yen's appreciation gave good reason to those who wanted to lock in recent gains," Shinko Securities analyst Norimitsu Otsubo said.

Hong Kong shares surged 3.9 per cent, more than making up for the previous day's losses.

The key Hang Seng index gained 391.10 points to close at 10,358.93.

Dealers said trade was thin as investors were fearful of further terrorist attacks after US-led air strikes on Afghanistan.

"The rebound was bigger than expected, but trading volume remained thin with players remaining cautious over the development of the US strikes against Afghanistan," Simon Tam, dealing

manager with Sassoon Securities said.

Australian shares rose 0.4 per cent with the All Ordinaries index gaining 11.9 points to 3,087.7 while the SP/ASX 200 added 13.1 points to 3,153.0.

Brokers described trading as light after the US-led retaliation against Islamic fundamentalists accused of sponsoring the September 11 terrorist attacks in New York and Washington.

Singapore share prices closed 2.5 per cent higher with the Straits Times Index ending up 33.55 points at 1,382.56.

Share prices on the Korea Stock Exchange rose 2.3 per cent as sentiment improved considerably after the steady performance on Wall Street.

The composite index closed up 11.48 points at 507.61.

Despite continuing fears of violent anti-US protests in Muslim Indonesia, the Jakarta Stock Exchange's key composite index also experienced a mild 0.7 per cent uptick after suffering the region's worst fall of 3.8 per cent on Monday.

Oil prices hardly move

REUTERS, London

Oil prices were little changed Monday as the market reaction to the US-led retaliatory strikes on Afghanistan was muted.

London Brent blend crude lost early gains to settle six cents down at \$21.57 a barrel, while US light crude settled six cents firmer at \$22.45.

Dealers said the market reaction was limited because allied strikes in response to the September 11 attacks in the United States did not threaten Middle East oil supplies.

Oil exports from key Middle East suppliers including Saudi Arabia, Iran and Iraq were flowing normally to world markets, industry sources said.

"Business is carrying on as normal," a shipping official in the region said. "I don't see why there should be an effect on operations here."

An Iraqi oil source said liftings of Basrah light crude from the Gulf terminal of Mina al-Bakr were in fact running at high levels again, having dipped recently due largely to steep war-risk insurance.

And throughout the Gulf on Monday, it was business as usual.

"Our operations are running smoothly," said an Iranian oil source. "There is absolutely no disruption to our exports and we believe the situation is the same throughout the region."

Asia needs to raise political risk insurance to woo investment

AFP, Singapore

Asian governments needed to increase the use of political risk insurance to revive the inflow of foreign investments, Asian and European business leaders said Tuesday.

Executives at the Asia-Europe Business Forum here said in their final recommendations that the Multilateral Investment Guarantee Agency (MIGA) — a part of the World Bank group — should establish an office in Southeast Asia quickly.

"Big investment flow is decreasing generally and it's especially a problem between Asia and Europe because it is already relatively low," said Frans Van Loon, managing director of global investment bank ING Barings.

"One of the best ways to stimulate foreign direct investments is to provide coverage for the political risk inherent in investment and there are a number of mechanisms for that," he told a media briefing after the two-day conference.

While such mechanisms exist, their use has not been optimised,

said Van Loon, who chaired the forum's investment working group which made the recommendations.

The recommendations will be submitted to members of the Asia-Europe Meeting (Asem), a dialogue forum between East Asia and Europe.

Van Loon mentioned MIGA, which offers political risk insurance to investors and lenders in a bid to help stimulate foreign investments, as well as private risk guarantors.

"We think it's important that capacity be better utilised and better made available to potential investors. We made a very concrete suggestion that MIGA should open an office in Southeast Asia quickly," he said.

The September 11 terror attacks in the United States which exacerbated the global economic downturn made the need for risk guarantees more urgent.

"It has become much more acute because after September 11, the flow of capital to developing countries was reduced further. The risk element is much higher," he said.

"What can you do to bring it back, to stimulate the flow of money

again? One way is to provide better and more easily accessible such risk reduction mechanism.

"These risks can, to a large extent, be reduced, taken away or mitigated by buying such insurance cover," he said.

Another recommendation was for Asian governments to more actively promote public and private partnerships to fund infrastructure projects, Van Loon said.

Big projects such as those in energy, water and transport require funding that many governments alone could not afford.

"In an environment where governments are constrained in their ability to finance the development of infrastructure, we advise that it is important to maximise the opportunity for public-private cooperation in building and running infrastructure projects," he said.

In a paper, the forum also emphasised the "importance of stimulating domestic capital and financial market development, particularly with a view to long-term debt capital and venture capital."

WTO officials still eye Doha for Nov confce

AFP, Geneva

World Trade Organisation (WTO) officials say they are still preparing for next month's scheduled WTO ministerial meeting in Qatar, despite the onset of US-led military action in Afghanistan.

Asked whether the November 9-13 conference could now take place, WTO spokesman Keith Rockwell on Tuesday referred to comments by WTO chief Mike Moore a day earlier, stressing that the plans had not changed.

US sources also said there was no change.

"American officials are still preparing to go to Doha," a US source said here on Tuesday.

"As we've consistently said, we are monitoring the security situation closely for any developments that could change the equation," the source commented.

WTO Director-General Mike Moore, facing regular quizzing over whether the WTO conference will be held since the terror attacks on the US on September 11, stressed on Monday that preparations were still underway.

"Ever since the 11th September, we are planning to go to Doha (Qatar)," Moore said to reporters.

"We must keep the pressure on ourselves and we are determined to do this," he said, adding "serious people" were examining the issue carefully.

Singapore braces for negative growth

AFP, Singapore

The Singapore economy is poised to dive further into negative territory with economists projecting a contraction of up to 6.0 per cent from a year earlier in third-quarter figures due out Wednesday.

The gross domestic product (GDP) figures for the three months to September are being released just two days before a second multi-billion dollar economic stimulus package aimed at rekindling consumer confidence.

Economists say the impact of the terrorist attacks in the United States last month will further hurt the trade-dependent economy already reeling from a global slowdown and bracing for at least 20,000 job losses this year.

"This is going to be worse than

1985," said Chia Woon Khien, a regional economist at ING Barings, referring to the last deep recession in Singapore.

ING Barings has projected a 4.3 per cent slump in the third quarter. But Chia added: "I expect something worse than that. I am prepared for minus five (per cent)," she told AFP.

Second quarter GDP shrank 0.9 per cent from a year earlier, marking the first time Southeast Asia's wealthiest country had turned in a negative quarter since the 1997-98 Asian financial crisis.

Prime Minister Goh Chok Tong has already sounded the warning bells for Singaporeans to brace for negative growth this year, and economists expect the government will again cut back its 2001 growth forecast of 0.5 to 1.5 per cent.

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